Contents

Part 1 – Effective date of guidance

1.1 This is version A5 of the guidance.

1.2 This version of the guidance is effective for valuations with an effective date on or after 31 October 2009.

1.3 This guidance should be read in conjunction with the most recent version of our *Guidance for undertaking the valuation in accordance with Section 179 of the Pensions Act 2004.*

Part 2 – Overview

2.1 Introduction

Section 179 of the Pensions Act 2004 ("the Act") requires every eligible scheme to undertake a Pension Protection Fund valuation to establish the level of the scheme's assets and liabilities in order to set the pension protection levy payable to the Pension Protection Fund.

2.2 Purpose of this guidance

This guidance is intended for actuaries undertaking valuations to determine the level of funding in accordance with **section 179** of the Act.

2.3 Legislative requirements

Assumptions must be set in compliance with Regulation 6 of the Pension Protection Fund (Valuation) Regulations 2005, which provides that:

- for a section 179 valuation, the estimated cost of securing scheme benefits in accordance with any guidance issued by the Board in accordance with section 179(4) of the Act, for the member by means of an annuity purchased at the market rate at the relevant time.

2.4 Legislation or authority for actuarial valuations

The following lists key legislation that is relevant to section 179 valuations but it is not intended to be comprehensive.

The Pensions Act 2004 (the Act), particularly section 179, section 162 and Schedule 7

The Pension Protection Fund (Valuation Regulations) 2005 SI 2005/672 ("the valuation regulations")

The Pension Protection Fund (Compensation) Regulations 2005 SI 2005/670

The Pension Protection Fund (Multi-employer Schemes) (Modification) Regulations 2005 SI 2005/441

Relevant compensation cap orders - these are updated annually, the most recent being The Pension Protection Fund (Pension Compensation Cap) Order 2009 SI 2009/795

The Pensions Act 2008

All legislation made under and/or modifying any of the above.

Part 3 – Financial basis for use when undertaking valuations

3.1 Calculation of yields as at the effective date of valuation

Yields should be measured as at the close of business on the effective date of the valuation. For any date where yields are not available the yields for the nearest preceding date should be used. Yields should be calculated to the nearest 0.01%. Expressions of the form (Yield Z - k%) should be calculated as an arithmetic difference and not a geometric difference.

3.2 Yields in deferment

Compensation increasing in deferment and accrued prior to 6 April 2009

For each non-pensioner, where compensation which accrued prior to 6 April 2009 increases in deferment, the liability for the period of deferment must be obtained by discounting the benefit at normal pension age at the adjusted net index-linked gilt yield shown below. As this yield implicitly allows for increases to normal pension age no allowance should be made for increases to benefits between the relevant date and normal pension age.

Adjusted net index-linked gilt yield = Yield A (**i**) – 0.3%

(**i**) Yield A should be determined daily as 50% of the sum of the FTSE Actuaries' Government Securities Index-Linked annualised Real Yields over 15 years assuming:

a 5% inflation; and

b 0% inflation.

Compensation increasing in deferment and accrued after 5 April 2009

For each non-pensioner, where compensation which accrued after 5 April 2009 increases in deferment, the liability for the period of deferment must be obtained by discounting the benefit at normal pension age at the adjusted yield shown below. As this yield implicitly allows for increases to normal pension age no allowance should be made for increases to benefits between the relevant date and normal pension age.

Adjusted yield = higher of (Yield A **(i)** – 0.3%) and (Yield B **(ii)** – 2.6%)

(**ii**) Yield B should be determined daily as the annualised yield on the FTSE Actuaries' Government 20 year Fixed Interest Index.

Compensation not increasing in deferment

For each non-pensioner, where compensation does not increase in deferment, the liability for the period of deferment must be obtained by discounting the benefit at normal pension age at the adjusted gilt yield shown below.

Adjusted gilt yield = Yield B (**ii**) – 0.1%

3.3 Yields in payment

For each pensioner and each non-pensioner, for the period from which payments are assumed to commence, the liability must be obtained by reference to the following (adjusted) yields:

Compensation with no increases in payment

Adjusted yield = Yield C (**iii**) + 0.6%

(**iii**) Yield C should be determined daily as the annualised yield on the FTSE Actuaries' Government 15 year Fixed Interest Index.

Compensation increasing in payment

Adjusted yield = higher of (Yield D (**iv**) + 0.1%) and (Yield C (**iii**) – 1.9%)

(**iv**) Yield D should be determined daily as 50% of the sum of the FTSE Actuaries' Government Securities Index-Linked annualised Real Yields over five years assuming:

a 5% inflation; and

b 0% inflation.

Part 4 – Mortality for use when undertaking valuations

The mortality tables to be used in respect of a member and the member's dependant, pre and post retirement, shall be PCMA00 (for males) and PCFA00 (for females), as appropriate, in each case with the medium cohort mortality improvement rates, and with a 1.25% floor (for males) and a 1% floor (for females) to the annual improvements, all applying from the year 2000.

These mortality tables are published by the Continuous Mortality Investigation for ages 50 and above. For ages below 50, the table extensions set out in the Continuous Mortality Investigation's Working Paper 26 shall be used. For each individual, the set of mortality rates used shall be those applicable to that individual's year of birth.

Part 5 – Other assumptions for use when undertaking valuations

5.1 Assumptions for contingent benefits

a) Proportions married

Where the scheme provides for survivor pensions:

For pensioners

Where the scheme makes provision (including discretionary provision) for survivor pensions for ‘relevant partners’ an assumption consistent with 85% (males) or 75% (females) at normal pension age.

Where the scheme does not make provision for survivor pensions for ‘relevant partners’ other than legal spouses an assumption consistent with 75% (males) or 65% (females) at normal pension age.

Using a proportion married assumption consistent with 85%/75% (males) or 75%/65% (females) at normal pension age may require mortality rates for calendar years before 2000 for a “strictly correct” calculation of the proportion married assumption to apply for older pensioners. In such circumstances prudent assumptions should be used.

For non-pensioners

Where the scheme makes provision (including discretionary provision) for survivor pensions for ‘relevant partners’ the assumption must be, at the assumed date of retirement or earlier death, 85% (males) or 75% (females).

Where the scheme does not make provision for survivor pensions for ‘relevant partners’ other than legal spouses the assumption must be, at the assumed date of retirement or earlier death, 75% (males) or 65% (females).

Contracted-out schemes

Note that for schemes which are contracted out on a protected rights basis, statute requires payment of a survivor’s pension to a wider category than just the legal spouse. Scheme rules should therefore be treated as including these statutory requirements i.e. assume 85% (males) or 75% (females).

b) Age difference between member and dependant

Females are assumed to be 3 years younger than males.

c) Children's pensions

No specific additional allowance is to be included for prospective children's pensions. Children's pensions already in payment should be assumed to cease at age 18, or age 23 if currently aged over 17.

5.2 Expenses

The expenses specified in this section must be applied whatever the investment strategy of the scheme and, in particular, even if all scheme benefits are secured by immediate and deferred annuity policies.

a) Estimated wind-up expenses

3% of liabilities (excluding benefit installation / payment expenses) up to £50 million

plus

2% of liabilities (excluding benefit installation / payment expenses) between £50 million and £100 million

plus

1% of liabilities (excluding benefit installation / payment expenses) in excess of £100 million.

b) Benefit installation / payment expenses

Non-pensioners
An allowance of £500 per member should be made.

Pensioners
An age-related allowance per member should be made, according to the table below:

Age	**Expense allowance per member £**
< 60	450
60 – 70	400
70 – 80	300
80 +	250

If a member has two or more records, e.g. a pension and a deferred pension, then only one expense allowance (the highest) should be calculated.